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Summary record of the joint meeting of the Second Committee and the Economic and Social Council on "The global economic situation and sovereign debt crisis"
Held at Headquarters, New York, on Monday, 24 October 2011, at 9.30 a.m.

Co-Chair:	Mr. Momen (Chair, Second Committee)	(Bangladesh)
Co-Chair:	Mr. Kapambwe (President, Economic and Social Council)	(Zambia)
Moderator:	Mr. Vos (Department of Economic and Social Affairs)	
Guest speaker:	Professor Joseph Stiglitz (Professor of International Affairs, Columbia University)	

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The meeting was called to order at 9.50 a.m.

Panel discussion on "The global economic situation and sovereign debt crisis"

1. **Mr. Momen** (Co-Chair) said that the present event was the first-ever joint meeting of the Second Committee and the Economic and Social Council. It had been called in the context of the ongoing global economic and financial crisis at a time when traditional economic models were proving to be of little help in meeting the challenges of high unemployment, widening income inequality, flagging economic growth and sharply increased food and energy prices. Globalization had brought greater opportunity for prosperity, but it had also made countries more vulnerable to external shocks. In a world where a huge proportion of people were living below the poverty level, the most vulnerable countries were likely to continue to fall short of the Millennium Development Goals unless there was strong political commitment on the part of development partners, matched by innovative financing mechanisms.

2. In the past year, the crisis had taken a new turn as a number of developed countries had begun grappling with sovereign debt issues that were threatening to bring financial and economic distress not only to them but also to the rest of the world, owing to the interconnectedness of international financial markets. The purpose of the current meeting was to enable all the participants to understand better those interrelated international financial and economic issues and to think about appropriate policy responses, under the guidance of Professor Joseph Stiglitz, who would share with them his insights and perspectives.

3. **Mr. Vos** (Department of Economic and Social Affairs), moderator, said that, after showing signs of recovery at the beginning of the year, the global financial situation now seemed to be on the brink of an even greater disaster as problems in the private sector had begun to spill over into the public sector. The banking and sovereign debt crises had become intertwined and could not be dissociated from other sources of concern, including persistent high unemployment, especially in the developed countries, high volatility in currency and commodity markets and an apparent inability of Governments to frame policies that would address all aspects of the crisis. The European Union was struggling to find answers, as was the Group of Twenty (G-20), while contending with the risk of a double-dip recession.

4. There was no better person than Professor Stiglitz to say whether the world was teetering on the brink of a new crisis. As Chair of the Commission on the Measurement of Economic Performance and Social Progress which in 2009 had informed the General Assembly of possible solutions to the more systemic problems underlying the 2008 and 2009 crisis, he would be able to shed valuable light on the current challenges.

5. **Professor Stiglitz** (Columbia University) said that the current global meltdown had begun in the United States of America with the subprime mortgage crisis, which had then been exported to the rest of the world. Europe was currently exporting it back to the United States. The economic challenges were great and the policy frameworks responding to those economic challenges were not adequate: in fact, many countries were moving in the wrong direction.

6. Before the crisis, the prevailing doctrine had been that economic integration, and diversification, would reduce risk; that securitization, the spreading of financial products around the world, was the answer. The United States had thus exported about 40 per cent of its toxic mortgages to Europe; if it had not done so, the downturn in America would have been much worse. Nevertheless, the overall effect was not what had been hoped, for reasons to do with both the underlying economics and the mathematics underlying the economics. That could be seen by analogy. A more integrated electric system made for more efficient use of electric generating capacity, but a breakdown in one part of the electric grid could bring down the whole system, as had been the case in the United States when a problem in a little town in Ohio had left the whole east coast without electricity. Recognizing then that an excessively integrated system could be very volatile, those in charge had responded by putting all kinds of circuit breakers into it. In the financial system, the same kind of effect would be produced by capital controls. One of the big changes to emerge in the aftermath of the crisis was the recognition by the International Monetary Fund that, under certain circumstances, capital controls were a good thing. A position that the United Nations had taken and that he had taken at the World Bank a decade earlier had now become part of the conventional wisdom. The need for

capital account management was generally acknowledged.

7. The current crisis, like the Great Depression, was actually a mixture of several different crises. The problems had been compounded by capital market integration, but then, as now, an economic problem, a financial problem and a monetary system problem existed simultaneously. In the debate about the Great Depression, the monetary authority, the Federal Reserve, was often held responsible for making it worse by not increasing the money supply fast enough. That had been the lesson drawn by Federal Reserve Chairman Ben Bernanke. The current crisis had shown, however, that much of that analysis was wrong. No one could have increased the money supply more than Chairman Bernanke. The Federal Reserve's balance sheet had risen from $800 billion to over $2 trillion in a very short span of time, but in spite of that unprecedented increase in the money supply, the economy had not recovered. In an economy that was supposed to have one of the most flexible labour markets in the world, 25 million Americans could not get a full-time job. Flexibility was not the answer. There was something wrong when millions of Americans were being thrown out of their homes. Demand and supply were not working as they were supposed to do.

8. The prevailing idea in response to the 2008-2009 crisis had been that by simply repairing the financial sector, the economy would return to normal. Hundreds of billions of dollars had accordingly been poured into the banks; in contrast with the welfare granted to the poorest, it had been given without conditions. However, instead of using the money for lending, as had been expected, the banks had used it for bonuses and dividends. While, the banking system had been reasonably, if not perfectly, repaired, the economy was still sick. Banks had gone back to giving unprecedented bonuses, but unemployment had remained very high.

9. Since neither the financial interpretation nor the monetary interpretation seemed to fit, the question that needed to be asked was: What had the state of the economy been back in 2007 before the crisis? In a way, it had been very sick: in 2006, 2007 and 2008 before the crisis, it had been sustained artificially by a bubble, which had led to unprecedented and unsustainable levels of consumption. The savings rate in the United States had dropped to zero; the bottom 80 per cent of Americans had been spending 110 per cent of their income. As a former Chairman of the Council of Economic Advisers had said, that which was unsustainable would not be sustained.

10. The next question to be asked, then, was: Why had it been necessary back in 2006 and 2007 to have the artificial support of a bubble to keep the economy going? One of the reasons had been the structural transformation of the global economy occurring at the time. The Great Depression had been another period of structural transformation. In the late nineteenth and early twentieth centuries, there had been unprecedented increases in the rate of productivity in agriculture, with the result that, in contrast with the nineteenth century, when most people had earned their living by producing food, fewer and fewer people had been needed to produce food. For instance, only 2 per cent of the American people currently worked to produce more food than even an obese country could eat and the United States had become a major exporter. Agriculture had now been replaced by manufacturing, where the increase in productivity had outstripped the increase in demand, with the inevitable consequence of a loss of jobs in manufacturing and a movement from manufacturing to other sectors, in particular the service sector.

11. During the Great Depression, people had moved from manufacturing to agriculture, but then incomes had fallen so low that people had not been able to move out of agriculture. In the United States in the 1920s, the percentage of the population in agriculture had fallen from 30 per cent to 25 per cent in just 10 years, but in the 1930s, with the decline in incomes, all movement out of agriculture had ceased. From 1929 to 1933, incomes in agriculture in the United States had fallen by 50 per cent, so that, for a quarter of the people, there had been no demand for manufactured goods and that had led to a loss of jobs in manufacturing. Exactly the same thing was happening today. The increase in productivity was leading to more unemployment and that was decreasing global aggregate demand. Government could play an important role not only in stimulating the economy, but also in helping the shift from the old sector to the new. During the Great Depression, the New Deal and, to an even greater extent, the Second World War had helped move people from agriculture to manufacturing, not only through high levels of Government spending but also by way of investments in the G.I. Bill and in

education that had restructured the United States economy. The need now was for people to move from manufacturing to the service sector but high levels of unemployment were causing them to remain trapped.

12. Beyond that, there were some other problems. In the 1990s, about 80 per cent of the loss of jobs in manufacturing had been due exclusively to increases in productivity. In addition, globalization had led to a shift out of manufacturing in the United States and Europe into other countries that had gained a comparative advantage. Another problem was inequality, because those at the top consumed less than those at the bottom. Income had been redistributed. That was one of the concerns of the "Occupy Wall Street" movement and the *indignados* in Spain and all over the world. The upper 1 per cent of the United States population now garnered more than 20 per cent of the income and held more than 40 per cent of the wealth. With so much income going to the top, there was less demand for goods, just as in the years before the Great Depression. The same pattern of growing inequality was to be seen in countries all over the world and some of it was related to the structural transformation mentioned earlier.

13. In a global world, global aggregate demand was important. One of the consequences of the failure of the International Monetary Fund, the United States Treasury and others to manage the last global crisis, the East Asia crisis of 1997-1998, had been that countries had decided that they needed to build up reserves in order to guard against ever again losing their economic sovereignty. Trillions of dollars in reserves had thus been built up. While that made sense for each country, in that it increased their autonomy, it meant reduced spending. All over the world, people were not spending in order to build up their reserves, resulting in a drop of hundreds of billions of dollars a year in global aggregate demand. In the aftermath of the crisis, those problems had grown worse. The countries that had done best were those with the largest reserves; so the reserve build-up had continued. At the same time, inequality had increased, because more unemployment had translated into lower wages. The people doing well were those on Wall Street.

14. Globally, the problem was that redistribution of income from oil consumers to oil producers resulting from high oil prices also affected global aggregate demand, particularly in view of the higher savings rates of oil producers, motivated by prudential concerns about the high volatility of oil prices. As a result, even if the financial system had been fully fixed, health would not have been restored. Even after deleveraging, it would be irresponsible to go back to a world where the bottom 80 per cent of Americans consumed 110 per cent of their income; it was also unlikely for that to happen. Deleveraging had to be addressed, as did the mortgage problem, still not resolved four years after the bubble had burst, but even then, the problem with the global economy would remain.

15. Now there was the euro crisis. At one level, it should be easily manageable: Europe's aggregate debt-gross domestic product (GDP) ratio was less than that of the United States. The Greek debt was a small fraction of European GDP or an even smaller fraction of European wealth. The real problem lay in the euro monetary system itself. The exchange rate mechanism and the interest rate mechanism, which had functioned as an adjustment mechanism, had been removed and nothing had been put in its place. What was needed was a fiscal framework, which did not mean just an austerity framework. The Maastricht Treaty and the Stability and Growth Pact might more appropriately be called the Instability and Non-growth Pact: before the crisis, Spain and Ireland had had a fiscal surplus and a low debt-GDP ratio. They had followed the dictates of the time, the new liberal dictates of free, unfettered markets and deregulation. And they had let the bubble grow. By complying with the standard wisdom, Spain, for instance, was currently having to contend with a situation in which over 40 per cent of its young people had long been unemployed. The problem in Europe could be solved if the European countries showed some cohesion and used their common resources to address each individual situation; if they failed to do that, there would be an even greater risk of a serious global problem.

16. In Europe, something like a new version of the gold standard had been created, removing the ability to respond to a crisis. The gold standard had not caused a crisis: it was an adjustment mechanism, or more accurately, the lack of an adjustment mechanism, just like the euro. Austerity was being suggested as the answer in Europe. However, if Greece, for instance, applied austerity measures, its economy would suffer, because lower incomes spelled lower tax revenues. Ironically, immediately after Spain had adopted the austerity measures, it had been given a credit downgrade — because the markets had believed that

Spain would honour its pledge, not because they had believed that it could not. As austerity had led to lower GDP and lower revenues, the markets had understood that it was a recipe for non-growth and for worsening the fiscal position. They had seen that when one country adopted austerity measures, it did not have global consequences. However, if many European countries did so, Europe would grow weaker, and, in a global world, when Europe grew weaker, everyone would grow weaker.

17. In the United States, there was also talk of austerity, of reducing the deficit. That would not be so difficult, if it were the main issue on the table. Ten years previously, the size of the United States surplus had prompted then Federal Reserve Board Chairman Alan Greenspan to say that if nothing was done about it, all of the country's national debt would be paid back fairly quickly and it would be difficult for him to conduct monetary policy. He had therefore urged a tax cut for rich Americans. The question was how had the world gone from being a place where extremely large surpluses had been viewed as problematic to a place where uncontainable deficits stretched out from the present as far as the eye could see.

18. Just four things had changed the United States fiscal position in a very short time. First, unaffordable tax cuts had been introduced, especially for the rich Americans. Secondly, there had been two very expensive wars that had not increased the country's security, costing trillions of dollars in increasing defence, so that the military spending of the United States was currently almost as much as that of the rest of the world combined. However, as all those hundreds of billions of dollars were being spent on weapons that did not work against enemies that did not exist, they were just money down the drain and did nothing to bolster the country's security. Thirdly, the drug companies enjoyed a special deal. The United States was the largest buyer of drugs, but it did not bargain over prices, at a cost, over a 10-year period, of hundreds of billions of dollars. And fourthly, and most importantly, the country was in recession.

19. The best means for addressing the country's deficits lay not in austerity but in putting America back to work. The same message was valid for much of the rest of the world. Those countries that had the fiscal space to spend money ought to be doing it. The United States had another big advantage. As it had underinvested in infrastructure and technology and education for the previous 20 years, spending in those areas would produce high returns, far higher than the interest to be paid on borrowing. And yet, in the United States, there was talk of cutting back on spending, on investment and weakening the country's future. Concerted austerity was a recipe for global economic suicide.

20. After the collapse of Lehmann Brothers in 2008, it had generally been agreed that money had to be spent, that a stimulus was needed. The stimulus had indeed worked, but it had been too small, given the severity of the economic downturn. Without the stimulus, the unemployment rate in the United States would have topped over 12 per cent rather than peaking at 10 per cent. Had there been no coordinated stimulus around the world, the risk of a global depression would have been very high. The problem was that many people around the world were taking advantage of the crisis to pursue other agendas, particularly the hidden agenda of downsizing government. Investments were bound to create deficits, even though they led subsequently to a lower deficit-GDP ratio because of increased tax revenue. The financial sector in its short-sightedness had thought it important to keep the budget balanced, disregarding a basic economic principle known as the balanced budget multiplier. According to that principle, higher government taxes in tandem with higher government spending resulted in increased GDP and job creation. So if the aim was to create jobs, even while keeping deficits down, that could be achieved by expanding government. If the chosen option was to invest and tax those at the top, focusing on areas of expenditure that had high multipliers and on areas of taxation that had very low multipliers, the balanced budget multiplier could be very large indeed, with every dollar increase in taxes translating into a two-to-three dollar increase in GDP.

21. The agenda clearly reflected in the report of the United States National Commission on Fiscal Responsibility and Reform (the Bowles Simpson report) was to reduce progressivity in the tax system. Such an agenda, designed to make societies more unequal, was very disturbing because increased inequality was currently one of the underlying problems in the United States economy.

22. He reiterated that even if the financial system was fully fixed, there would be no return to normal because the pre-crisis economy had been maintained in a state

of artificial respiration by a bubble; there could be no going back to that bubble. Although in the United States investment was almost back to normal, although the banks were again paying their bonuses, the financial system had not been repaired. Some of the underlying problems remained, indeed had grown, and were playing a role in the current crisis: the problems of too-big-to-fail banks, the problems of bad accounting and non-transparent over-the-counter derivatives. For example, the lack of transparency, the difficulty of ascertaining whether or not banks were sound, was affecting the judgement even of regulators, as in the recent case of the European bank that had failed after they had considered it to be in good shape. If the regulators could not tell whether a bank was strong, how could ordinary investors in the market know? Claims that their confidence had been restored could not be sustained so long as there was clearly no basis for confidence. The credibility of those who had been forecasting that recovery was just around the corner had actually been undermined. As, in response to the crisis, banks had been amalgamated, the degree of concentration had increased, with the result that the too-big-to-fail problem was even greater and excessive risk-taking continued.

23. Unfortunately, because of a focus on short-term problems, some of the longer-term problems had grown worse, including that of climate change. To nurse the economy back to reasonable health, those countries with access to finance must spend more on investment to increase their growth today and increase their growth in the future; policies needed to be put in place that would increase equality, facilitate global structural transformation, reduce dependence on fossil fuels and address the challenge of climate change. The most likely prospect, however, was a long-term Japanese-style malaise, a kind of outcome that he had already predicted at the beginning of the crisis.

24. In conclusion, he echoed one of the main messages of the report of the United Nations Commission that he had chaired two years previously: the crisis was a global crisis; all countries were interdependent; what happened in one part of the world affected others. It was true that the emerging markets had done very well and might be able to continue to grow in spite of the turmoil in Europe and America, but clearly if Europe and America managed to do better, it would benefit all the countries of the world. Global economic cooperation was absolutely essential; the current frameworks were inadequate. The Commission had recommended the establishment of a global economic coordinating council, given the clear need for far more coordination than there had been in the past. He expressed the hope that the current turmoil would give the world a jolt into recognizing its interdependence and furthering global economic cooperation.

25. **Mr. Vos** (Department of Economic and Social Affairs), moderator, thanked Professor Stiglitz, in particular for ending on a slightly optimistic note, despite the underlying pessimism he had expressed. He invited questions from the floor.

26. **Ms. Das** (Project LINK) said that, before the crisis, savings rates in the United States had been very low but that now they were high and there was insufficient spending. What would be an appropriate way to bring back consumption without triggering another crisis?

27. **Mr. Rahman** (Bangladesh) asked what advice Professor Stiglitz would give to the least developed countries, some of which, in the face of severe structural constraints and contending still with the effects of the global crises, remained cautiously optimistic about graduating to developing country status by 2020.

28. **Mr. Mahmood** (International Labour Organization (ILO)) said that Professor Stiglitz had formulated the important hypothesis that the rate of growth of productivity outstripped the growth of aggregate demand. That complemented ILO findings on the trade-off at the heart of the growth process when growth was decomposed into productivity and employment. The aspirations of countries to economic growth were based on higher and higher productivity and, as a result, employment suffered. He asked Professor Stiglitz to comment.

29. **Mr. Ovalles-Santos** (Bolivarian Republic of Venezuela) said that the Group of 77 countries were very concerned about the negative outlook for the global economy. Nothing less was needed than a full reform of the system. That being so, he asked Professor Stiglitz to elaborate on his proposal for the establishment of a global economic coordinating council. Would it be at finance minister level or at Member State level, or would it be a natural outgrowth of a commission of experts?

30. **Mr. Acharya** (Nepal) said that, in an interconnected world, the basic problem with the G-20 was that it was not representative. What could be done to ensure that the challenges facing countries like his own were duly taken into account at the global level?

31. **Professor Stiglitz** (Columbia University), responding to the question about the savings rate for the United States, said that, after dropping to close to zero, it was currently hovering around 5 or 6 per cent. Despite the claims by experts that United States consumption was climbing back up, that percentage corresponded to what was to be expected from the inequality existing in the United States. The upper 20 per cent of the population could be assumed to be saving around 15 per cent and the remaining bottom 80 per cent to be saving zero. Before the crisis, the bottom 80 per cent had been saving minus 10 per cent. Considering the United States was not about to regain its previous levels of consumption, the question was: What was going to fill the gap? He disagreed with some of the so-called economic experts, one of whom had talked about excessive savings around the world. The global economy showed no savings glut. Everywhere there were huge needs — for infrastructure in Africa and elsewhere in the least developed countries, for retrofitting the global economy for global warming, for investments to raise the standards of living of those at the bottom. The problem lay rather in the fact that the global financial markets were not properly deploying savings to meet the real investment needs of the global economy. The issue that needed to be addressed globally, then, was how to fix the global financial markets. The response of the G-20 was to encourage some parts of the world to consume more, but the world would not survive if everybody were to adopt the prolific consumer lifestyle of the United States. In terms of the environment, in terms simply of physics, the planet would not survive if everyone consumed in that materialistic way. A change was essential and that required investments, investments that would restructure the economy.

32. In recent years, the International Monetary Fund had made some commendable changes and had become much more open. It was now recognizing the link between inequality and volatility; addressing inequality was part of its mandate, because stability was part of its mandate. As there was overwhelming evidence of a link between inequality and stability, the Fund had become rightly concerned about inequality. That was a major change, as was the Fund's new approach to capital account management.

33. The ILO representative had made the very pertinent point that productivity growth, in the absence of measures to restructure the economy, could push down employment. When it outstripped the increase in demand for manufactured goods, it would indeed create a problem of employment, just as higher productivity growth in agriculture would have been a real problem had people not been moved out of agriculture. They had been shifted first to the manufacturing sector, but now that, too, was experiencing something like a problem of productivity. When the economy was working well, with people moving between sectors, when there was perfect mobility, without impediments, then net GDP could rise. He pointed out that, even when productivity increases led to increased GDP, when for instance things were working perfectly, not everyone gained. There were winners and losers, and the winners might be expected to compensate the losers, although they very seldom did. When, however, the markets were not working well, as was often the case, people were unable to make the shift and became trapped in the wrong sector, with declining incomes. The challenge today then was to find ways of restructuring national economies and of moving people out of sectors where they were not needed into sectors where they were needed. That challenge was all the greater for the least developed countries.

34. One of the reasons why the notion of a savings glut was particularly offensive was that some countries were in need of large investments in infrastructure and technology and the developed world should be trying to provide more assistance to them. Even in many African countries, which in recent years had given evidence of good governance and good macroeconomic frameworks, capital had been flowing, but the financial markets were still not providing them with the necessary capital. Thus, there was a real need for public assistance. Indeed, one of the requirements of the present-day world was a further recapitalization of the International Monetary Fund and the World Bank: the global economy had been expanding for the past 20 years, but the world's financial institutions had not kept pace.

35. The global economic balance of power had changed significantly since the founding of the Bretton Woods institutions, 60 years earlier. The emerging

markets now had a far higher income than Europe and America had had in 1945; they had the resources to set up their own institutions, to try to help the least developed countries, to help each other. Cooperative institutions, like the Andean Development Corporation (CAF), had proved very effective in raising capital, and at much lower interest rates than could have been obtained by any of the individual members. The time was therefore ripe to rethink the global economic architecture.

36. One of the reasons behind the proposed establishment of a global economic coordinating council was the view, shared by the representative of Nepal, that the G-20 lacked inclusiveness, representativeness and political legitimacy, and that the one international institution that brought all countries together was the United Nations. The basic idea was that a small group was needed to address such complex matters but that it should be representative, have legitimacy and reflect all the different views and circumstances of the various countries. At the G-20 meeting in 2009, when there had been a clear threat of global disaster, the world had come together. Now, however, different parts of the world faced very different economic circumstances. The emerging markets were growing reasonably well while Europe and America were in difficulty. He reiterated that austerity was the wrong path for those countries that had the fiscal space to expand, like the United States and many European countries.

37. Turning to the question regarding the least developed countries, he said that one of the important mechanisms whereby countries could help themselves was trade. In 2001, countries had joined together in the Doha Development Round, but that had proved to be a misnomer as, in subsequent years, Europe and the United States had basically reneged on their development commitments. Europe had taken a very important step, through the Everything but Arms initiative, to open its doors to the least developed countries, at very small cost — and indeed some benefit — to Europe, and enormous benefit to the least developed countries. Unfortunately, the United States had not followed suit. It had agreed to open its doors to 97 per cent of least-developed-country products; it had, for instance, agreed to accept from Bangladesh all goods except those that Bangladesh actually produced. Thus, Bangladesh could export jet airplanes to the United States but not garments or textiles. It was, however, important for the United States to join in that effort of opening doors, of sweeping away non-tariff barriers, both in Europe and the United States; that could be a very important avenue in the current context.

38. **Mr. Vos** (Department of Economic and Social Affairs), moderator, invited further questions from the floor.

39. **Mr. Gangnes** (Project LINK) asked Professor Stiglitz whether he saw any political way forward in the United States or Europe that would get round the austerity trap. Was there still room for some kind of grand bargain? He wondered, in particular, whether policymaker Bernanke should follow academic Bernanke and try to target somewhat higher inflationary expectations.

40. **Mr. Busuttil** (European Union) said that the previous day, the European Council in Brussels had again reiterated its commitment to take all necessary measures to ensure the stability of the euro area. The package consisted of five technically and politically interrelated elements, namely, forceful action by all Governments to ensure sustainable public finances and enhance growth; a sustainable solution for Greece; a sufficiently strong firewall against contagion; restoration of confidence in the European banking sector through a coordinated scheme to recapitalize the banks and improve their funding; and, lastly, better governance and stronger integration of the euro area. Some eminent economists considered those measures misguided and called instead for aggressive stimulus. While the European Union's crisis management might seem to have been belated and piecemeal, it had made a significant impact, particularly in view of its complex multi-member State structure. Indeed, in addressing the build-up of public debt, it had been very much a forerunner; in recapitalizing the banking system, its efforts had been significant and had led, in particular, to substantial raising of capital in a pre-emptive manner and clear commitments by Governments to provide financial backstops. The European Union took its responsibilities seriously, both in the world and at home. It recognized that the sovereign debt crisis in the euro area was the defining challenge of the age and would continue to address that challenge with political determination, courage and statesmanship.

41. **Mr. Dennis** (Liberia) said that post-conflict countries like his own, and developing countries

generally, were anxious to see a revival of the global economy in order to make their contribution as part of an interconnected world. The United States, whose economy had always been a benchmark for other countries to measure their own growth and efficiency, seemed incapable of responding to the current crisis at the necessary global level. He wondered how the United States could renege on its global responsibility for that crisis.

42. **Mr. Al Dardari** (Project LINK) asked Professor Stiglitz what advice he would give to economic policymakers in the Arab world faced with high expectations of job creation among young people at a time of transition or great pressure for Governments in the region.

43. **Mr. Pauly** (Project LINK) said that the history of attempts at international policy coordination of the kind favoured by Professor Stiglitz was discouraging. What was different now? What were the obstacles? Were there any grounds for optimism?

44. **Professor Stiglitz** (Columbia University) said that he did not believe that monetary policy alone offered a solution to the crisis; it had, however, contributed to the crisis, particularly because of its role in deregulation and in determining interest and leverage rates. The Federal Reserve's capping of interest rates in the United States had not translated into increased lending. The big banks had been saved but nothing had been done for the small banks, which were responsible for lending to small and medium-sized enterprises. Around the country, 300 such banks had gone under, while 800 others were in a precarious position. Furthermore, as most lending to small businesses was based on collateral, in the form of real estate, the failure of the monetary authorities to fix the real estate market, characterized by continually falling prices, had severely circumscribed lending. As for the academic view that lower interest rates would cause people to invest more, that was the kind of silly reasoning typical of the silly models that had led to the crisis. Responses to changes in interest rates tended in fact to be relatively small.

45. Before the crisis, 40 per cent of all investment in the United States had been in real estate, with the result that more houses had been built than were needed for the coming 5 or even 10 years. The manufacturing problem had thus been compounded by the real estate problem, which was why he was pessimistic about the effectiveness of monetary policy. The first exercise in quantitative easing (QE1) had not worked, nor had the second (QE2). Globalization called for a global perspective. In a global world, banks lent money to rapidly growing economies, not to sick ones; in other words, they lent to the emerging markets. Monetary expansion in a globally open economy was therefore very different from monetary expansion in a closed economy. In an open economy, money went largely to where it was not needed, not to where it was needed. Brazil and a number of other countries had complained that QE2 monetary expansion was hurting their economy. They had accordingly put up capital controls in an effort to push back the flow of money, which had been the main mechanism by which QE2 might have worked. The bottom line was that monetary policy was a distraction; the focus should be on fiscal policy. While not every country had the scope for expanding fiscal policy, the United States and some of the European countries, notably surplus countries like Germany, could indeed engage in more expansive activity.

46. On the question of a possible grand bargain, he was pessimistic. The framework that he had outlined earlier — involving increased taxes, particularly at the top where the multipliers were low, and increased expenditures on unemployment benefits and investments with high multipliers leading to high long-term growth — was not being contemplated in American politics today.

47. In Europe, a number of leaders were totally committed to solving the problems. The issues that they had identified had merit and their agenda was essentially sound. In the European Union's July 21 agreement on the Greek debt crisis, they had recognized that austerity was not the answer, but rather that assistance, through a European investment bank or solidarity fund, was needed to spur growth in countries facing such crises. As no money had been forthcoming, Greece had continued to decline as most economists predicted it would.

48. The main problem was that politics and economics were advancing at different paces. The July 21 agreement was a good agreement but it still had not been put into effect. That was not in itself a particularly slow rate of implementation, but it was out of phase with the fast-moving financial markets. A further problem lay in the excessive European focus on austerity. Spain and Ireland had shown that the

Stability and Growth Pact did not work, but no alternative framework had been found. The alternative was a real fiscal union, where countries shared their fiscal strength, something like a European bond, which would provide each of the individual countries with support. However, it was a very big question whether that would happen fast enough. The trouble was that without solidarity, the European Union could not function effectively as a monetary union. The existence of a currency required more than free trade, more than free migration.

49. The European Central Bank had done well in buying the bonds of various countries, but its inflation-targeted mandate belonged to the 1970s not to the twenty-first century; and its reluctance to accommodate a deeper restructuring of the bonds issued by Greece or other problem-ridden countries was an impediment to the resolution of the European crisis. He commended the commitment of some leaders while noting that greater solidarity was needed to make the system work.

50. In response to the question concerning the Arab world, he said that one of the motives behind the Arab spring had been the acute lack of jobs for youth, but beyond that, there had been a sense of inequity: those who landed jobs were often those with connections. Lack of fairness was indeed a complaint currently being voiced throughout the world in the protest movement. In the Middle East, people were disillusioned, frustrated: they had tried the neo-liberal model, tried the market model, and it had not worked, it had just produced greater inequality. They had tried socialism and it had not worked: there had been no growth, only corruption. However, alternatives did exist. The European social model, hampered unfortunately by the euro crisis, was in many ways a good economic model. There were very many different forms of market economy; it was just necessary to find the right one. The Washington Consensus model had not worked even in Washington; it had led to the global crisis. The Arab world had undergone two bad experiments and now needed a third try, the prospects for success were much greater.

51. Finally, on the question of policy coordination, he said that it was extraordinarily difficult to achieve, but that its absence made for even greater difficulties. In today's world, what one country did had an impact on others. During the Great Depression, beggar-thy-neighbour policies, where one country had tried to save itself, had brought down the global economy. Competitive devaluation worked the same way, with one country seeking to maintain the exchange rate at the expense of other countries. He therefore considered that global economic policy must begin by identifying externalities and the links between countries, and recognizing that action to help one country could have adverse or beneficial effects on others. He again, in conclusion, recommended the establishment of global governing institutions, like a global economic coordinating council, as one of the mechanisms needed to take such externalities into account.

52. **Mr. Vos** (Department of Economic and Social Affairs), moderator, thanked Professor Stiglitz and said that the Project LINK meetings in the coming days would offer an excellent opportunity to give further thought to the complex question of global linkages. Professor Stiglitz had highlighted the importance of looking at the structural transformations in the world economy and seeing how shifts between sectors affected financial markets and commodity price instability; he had also emphasized the need for investment in the long run to overcome structural problems. Stepping up government intervention might be the key, but at the same time people needed to have confidence in what governments could do. That was a good starting point for further interactive dialogue within the United Nations on the lines of the present joint meeting, which he hoped would become a regular event.

53. **Mr. Kapambwe** (Co-Chair) thanked Professor Stiglitz for his precious insights. He stressed that the after-effects of the economic and financial crisis, combined with the emerging sovereign debt crisis, had undermined global economic growth and threatened much of the progress achieved towards the Millennium Development Goals. In that context, the United Nations must assert its global leadership role in coordinating international policy and strengthening global economic governance, and it must do so in closer collaboration with the G-20, the Bretton Woods institutions and global and regional players. It was his hope that collaborative initiatives such as the present one between the Second Committee and the Economic and Social Council would prove useful in advancing policy discussions on the complex issues of economic growth, international finance and development.

The meeting rose at 11.45 a.m.